

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Michigan Public Power Agency	County Ingham
Audit Date 12/31/04	Opinion Date 3/17/05	Date Accountant Report Submitted to State: 4/28/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

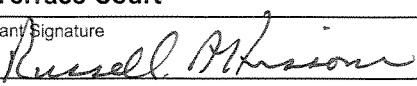
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Virchow, Krause & Company, LLP			
Street Address Ten Terrace Court	City Madison	State WI	ZIP 53707
Accountant Signature 		Date 4.26.05	

MICHIGAN PUBLIC POWER AGENCY
Lansing, Michigan

FINANCIAL STATEMENTS

December 31, 2004

MICHIGAN PUBLIC POWER AGENCY

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December 31, 2004

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Michigan Public Power Agency
Lansing, Michigan

We have audited the accompanying combined financial statements of Michigan Public Power Agency (MPPA) as identified in the accompanying table of contents as of and for the year ended December 31, 2004. These combined financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to in the first paragraph present fairly, in all material respects, the combined financial position of MPPA as of December 31, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 - 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The financial information on pages 28 - 37 is presented for purposes of additional analysis and is not a required part of the combined financial statements of Michigan Public Power Agency. Such information for the year ended December 31, 2004 has been subjected to the auditing procedures applied in our audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Madison, Wisconsin
March 17, 2005

Virchow, Krause & Company, LLP

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

The management of Michigan Public Power Agency (MPPA) offers all persons interested in the financial position of MPPA this narrative overview and analysis of MPPA's financial performance during the year ending December 31, 2004 and 2003. You are invited to read this narrative in conjunction with MPPA's financial statements.

FINANCIAL HIGHLIGHTS

- MPPA's total net assets increased \$56,681, or 18% from the prior year. This was due to member dues and other revenues in excess of general office operations.
 - MPPA's operating expenses in 2004 were \$8,358,000 higher than in 2003. This is a 8.5% increase in operating expenses from the prior year. Most of the increase was due to increased fuel purchases for the Belle River Project and increased energy purchases for the Power Pool Project. These costs were passed on to project participants resulting in an increase in operating revenues of \$9,364,000 or about 8%. The net effect was an increase in operating income of \$1,006,000 compared to the prior year.
 - Total agency assets decreased \$4,489,000 while total liabilities decreased \$4,546,000. These are the result of normal operations including the payment of debt and continuing capital asset improvements.
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OVERVIEW OF THE FINANCIAL STATEMENTS

Michigan Public Power Agency is a public body politic and corporate of the state of Michigan. MPPA was created in 1978 under Act 448 of the Public Acts of Michigan, 1976, as amended. The purpose of MPPA is to oversee the development and operation of various projects to supply electric power and energy to the project members. MPPA has fourteen members, each of which is a municipal corporation in the State of Michigan and owns and operates a municipal electric system.

This annual report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. MPPA is a self-supporting entity and follows proprietary fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Proprietary fund statements offer financial information about the activities and operations of MPPA.

The combined financial statements are designed to provide readers with a broad overview of MPPA's finances, in a manner similar to a private-sector business.

MPPA's operations consist of four power projects:

- Campbell No. 3
- Belle River
- Power Pool
- Combustion Turbine #1

In addition, MPPA members share in the administrative and general costs incurred to operate these projects.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2004

OVERVIEW OF THE FINANCIAL STATEMENTS (cont.)

It is very important to note however that due to contractual arrangements, which are the basis of each power project, no monies can be shared between projects. The cash flow of one power project, although combined with all others in the combined financial statement presentation as required by financial reporting rules, cannot and should not be considered available for any other project. Great care should be exercised in evaluating the financial condition of MPPA as a combined entity from the use of the Combined Financial Statements.

- The Combined Statements of Revenues, Expenses, and Changes in Net Assets presents information showing how MPPA's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.
 - The Combined Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for repayment of bonds and capital additions.
 - The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 14 of this report.
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MPPA FINANCIAL ANALYSIS

An analysis of MPPA's financial position begins with a review of the Balance Sheet, and the Statements of Revenues, Expenses and Changes in Net Assets report information. These two statements report MPPA's net assets and changes therein. As noted earlier, great care must be taken when evaluating MPPA's financial position and results of operations when using the combined financial presentations due to the legal separation that must be maintained between projects. However, broad patterns and trends may be observed at this level that should lead the reader to study carefully the financial statements of each project.

A summary of MPPA's Combined Balance Sheet is presented below in Table 1. The Combined Statements of Revenues, Expenses and Changes in Net Assets is summarized in Table 2.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.) December 31, 2004

MPPA FINANCIAL ANALYSIS (cont.)

Table 1
Condensed Balance Sheet

	<u>2004</u>	<u>2003</u>
Current assets	\$ 138,384,158	\$ 128,740,905
Restricted assets	41,591,908	44,347,901
Non-current assets		
Capital assets	246,021,927	256,940,514
Other assets	3,536,735	3,994,694
Total Assets	<u>\$ 429,534,728</u>	<u>\$ 434,024,014</u>
Current liabilities	\$ 36,894,894	\$ 31,318,390
Non-current liabilities		
Deferred revenue to be recognized in future periods	73,902,318	67,135,954
Member capital	1,400,000	0
Revenue bonds payable, less current portion	316,971,211	335,260,046
Total Liabilities	<u>429,168,423</u>	<u>433,714,390</u>
Net assets		
Invested in capital assets, net of related debt	(76,534,380)	(77,258,049)
Restricted	8,418,962	8,174,639
Unrestricted	68,481,723	69,393,034
Total Net Assets	<u>366,305</u>	<u>309,624</u>
Total Liabilities and Net Assets	<u>\$ 429,534,728</u>	<u>\$ 434,024,014</u>

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

December 31, 2004

MPPA FINANCIAL ANALYSIS (cont.)

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2004</u>	<u>2003</u>
Operating revenues	\$ 126,758,248	\$ 117,394,013
Non-operating revenues	<u>2,585,925</u>	<u>2,169,824</u>
Total Revenues	<u>129,344,173</u>	<u>119,563,837</u>
Depreciation expense	14,026,683	14,614,926
Other operating expenses	92,572,535	83,625,870
Non-operating expenses	<u>15,921,910</u>	<u>16,658,658</u>
Total Expenses	<u>122,521,128</u>	<u>114,899,454</u>
Income Before Deferred Revenue	6,823,045	4,664,383
Deferred revenue to be recognized in future periods net of deferred revenue recognized in current period	<u>(6,766,364)</u>	<u>(4,879,583)</u>
Changes in Net Assets	56,681	(215,200)
Beginning Net Assets	<u>309,624</u>	<u>524,824</u>
Ending Net Assets	<u>\$ 366,305</u>	<u>\$ 309,624</u>

MPPA uses fund accounting, Federal Energy Regulatory Commission accounting and special utility industry terminology to ensure and demonstrate compliance with finance-related legal requirements.

Campbell No. 3 Project

MPPA jointly owns and operates the Campbell Unit No. 3 electric generation facility with Consumer's Energy. Ten of MPPA's members participate in this project, consisting of a 4.8% undivided ownership interest in the coal-fired generating plant in Ottawa County, Michigan. During 2002 MPPA issued \$11,000,000 in revenue bonds for capital improvements at the Campbell No. 3 facility. Unspent resources remaining at December 31, 2004 of \$3,578,000 are reported in the construction account as a restricted asset. Operating revenues for 2004 increased by 7% compared to 2003. During the same time period the cost of power increased by 6%.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.) December 31, 2004

MPPA FINANCIAL ANALYSIS (cont.)

Belle River Project

With 11 of the member communities participating in this project, MPPA jointly owns and operates the Belle River Power Plant with Detroit Edison. MPPA has a 37.22% undivided ownership interest in Belle River Unit No.1, a coal-fired electric generating unit located in St. Clair County, Michigan. The outstanding bonds related to the construction of this project were advanced refunded in 2002 with the issuance of \$280,180,000 in new revenue bonds. MPPA was able to use a substantial amount of existing resources to decrease the amount of new debt required for this refinancing due to the elimination of the reserve requirement on the new bonds. The cost of power increased by 6% from 2003 to 2004. Sales to participants increased 8%. The net cash and cash equivalents of the Belle River Project increased by \$9,862,000 during 2004 mainly as a result of the shorter maturity of new investments made after the maturity of longer dated investments.

Power Pool Project

The Power Pool Project was established to allow member communities to pool their generating resources and electric loads. The Power Pool uses economic dispatch principles in determining the moment-by-moment output of generating resources, along with any purchases of energy from third party resources, so as to obtain the lowest overall electric energy cost for the Power Pool that is reasonably attainable at any given point in time. The group experienced a 9% increase in sales and a corresponding 9% increase in operating expenses in 2004 compared to 2003. For 2004 purchased power made up 84% of the Power Pool operating costs. For 2004, the operating costs of the Power Pool project exceeded the member billings resulting in the application of deferred revenue from a previous period.

Combustion Turbine #1 Project

MPPA began construction of the Combustion Turbine #1 Project (CT Project) in 2001. Construction of the natural-gas fired combustion turbine generating unit was completed in 2002 and operation began in November of that year. \$34,645,000 of revenue bonds were issued in 2002 to finance the construction. Currently there are five members participating in this project. For the year ended December 31, 2004 this projected reported \$287,039 of deferred revenues to be recognized in a future period.

General Office Operations

MPPA accounts for the general office operations that cannot be attributed to any one specific project in an internal service fund. Member dues are based on the annual budgeted operating costs, with a portion of the operating costs allocated to each project as overhead. The income for the General Office Operations fund was \$56,681 in 2004 compared to a loss of \$215,200 in 2003. The decreased operating costs related mainly to specialized outside services.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.) December 31, 2004

CAPITAL ASSETS

MPPA's investment in capital assets as of December 31, 2004 amounts to \$246,022,000 (net of accumulated depreciation). This investment in capital assets includes investment in plants, transmission systems, land, buildings, improvements, machinery and equipment. The total decrease in MPPA's net investment in capital assets for the year was 4.2%. Each project contributed to this differently. The Campbell No. 3 Project net investment in capital assets increased by 8.5% with increased plant improvement initiatives and annual depreciation. The net investment in the Belle River Project capital assets investment decreased by 5.8% as a result of annual depreciation. The Combustion Turbine Project net investment in capital assets decreased by 3.2% as a result of annual depreciation. See Note 5 for additional details.

LONG-TERM DEBT

At December 31, 2004, MPPA had total liabilities outstanding of \$429,168,000 of which \$333,906,000 represents bond payments payable. These remaining principal payments on long-term debt, including current amounts due, are as follows:

Campbell No. 3 Project	\$ 24,467,000
Belle River Project	275,661,000
Combustion Turbine #1 Project	<u>33,778,000</u>
Total	<u>\$ 333,906,000</u>

See Note 6 for additional details.

ECONOMIC CONDITIONS

The 2005 budget was adopted amid steady national and state economies. The member-cities' economies have shown varying amounts of growth in both demand and energy. Interest rates, having been historically low over the past three years, are expected to increase in 2005. In order to assist its members in meeting their future power supply requirements, MPPA performs annual planning reviews of load and resource projections for all of its members that request such service. These projections are utilized in preparing the annual budgets and evaluating the need for future capital projects. Because MPPA's members are billed based on actual costs, revenues will fluctuate with operating costs rather than be determined by any set rates.

MICHIGAN PUBLIC POWER AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.) December 31, 2004

CURRENTLY KNOWN FACTS

MPPA's transmission agreements have undergone changes in the past year. Consumers' Energy has transferred its transmission assets to Michigan Electric Transmission Company (METC), a subsidiary of Consumer's Energy. MPPA has taken legal action that resulted in settlement agreements which require that MPPA's rights under the Consumers transmission Agreement will be honored and performed by METC, or any subsequent purchaser of METC or a substantial portion of the transmission facilities. The settlement agreement also provides for the purchase of additional transmission assets by MPPA, for which the purchase price is not currently known. Detroit Edison has transferred its transmission system to ITC. MPPA's agreements with Detroit Edison have been assigned by ITC.

CONTACTING MPPA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of MPPA's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Michigan Public Power Agency, 809 Centennial Way, Lansing, MI 48917.

Balance Sheet Follows

MICHIGAN PUBLIC POWER AGENCY

COMBINED BALANCE SHEET

December 31, 2004

(With comparative totals as of December 31, 2003)

ASSETS

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	General Office Operation	2004	(Memorandum Only) 2003
CURRENT ASSETS							
Cash and Cash Equivalents							
Project account	\$ 5,980,700	\$ 36,033,649	\$ -	\$ -	\$ -	\$ 42,014,349	\$ 33,615,271
Operation and maintenance account	2,010,201	8,333,846	-	3,794,084	-	14,138,131	11,565,266
Operation and maintenance reserve account	250,000	-	-	-	-	250,000	250,000
Fuel reserve account	800,000	-	-	-	-	800,000	800,000
Other	-	-	2,662,692	-	237,960	2,900,652	2,887,136
Total Cash and Cash Equivalents	9,040,901	44,367,495	2,662,692	3,794,084	237,960	60,103,132	49,117,673
Investments - Project Account							
US Government securities	-	-	-	-	-	-	16,328,000
US Government Agency notes	-	51,336,602	-	-	-	51,336,602	41,323,925
Accrued interest receivable	10,698	598,199	-	9,500	-	618,397	752,036
Accounts receivable	1,078,261	7,333,886	8,271,124	391,379	78,042	17,152,692	11,655,138
Fuel inventory	487,872	5,862,656	-	125,956	-	6,476,484	6,874,802
Materials and supplies inventory	-	2,465,006	-	231,845	-	2,696,851	2,689,331
Total Current Assets	10,617,732	111,963,844	10,933,816	4,552,764	316,002	138,384,158	128,740,905
RESTRICTED ASSETS							
Debt service account	3,093,528	20,555,241	-	1,697,389	-	25,346,158	23,932,642
Construction account	3,577,585	-	-	4,235,584	-	7,813,169	12,081,789
Reserve and contingency account	-	8,416,698	-	-	-	8,416,698	8,318,166
Scholarship Fund	-	-	-	-	15,883	15,883	15,304
Total Restricted Assets	6,671,113	28,971,939	-	5,932,973	15,883	41,591,908	44,347,901
NON-CURRENT ASSETS							
Capital assets							
Utility plant in service	44,915,213	446,523,755	2,509,825	25,808,413	871,065	520,628,271	517,527,754
Allowance for depreciation	(23,734,021)	(246,103,253)	(2,509,467)	(1,764,660)	(494,943)	(274,606,344)	(260,587,240)
Total Capital Assets	21,181,192	200,420,502	358	24,043,753	376,122	246,021,927	256,940,514
Other assets							
Deferred bond issue costs - net	286,434	2,469,613	-	780,688	-	3,536,735	3,994,694
Prepaid long-term lease (deferred obligation)	-	298,000	-	-	(298,000)	-	-
Total Non-Current Assets	21,467,626	203,188,115	358	24,824,441	78,122	249,558,662	260,935,208
TOTAL ASSETS	\$ 38,756,471	\$ 344,123,898	\$ 10,934,174	\$ 35,310,178	\$ 410,007	\$ 429,534,728	\$ 434,024,014

See accompanying notes to financial statements.

MICHIGAN PUBLIC POWER AGENCY

COMBINED BALANCE SHEET

December 31, 2004

(With comparative totals as of December 31, 2003)

LIABILITIES AND NET ASSETS

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	General Office Operation	2004	(Memorandum Only) 2003
CURRENT LIABILITIES							
Accounts payable and accrued expenses	\$ 603,843	\$ 2,353,346	\$ 8,362,777	\$ 187,332	\$ 27,819	\$ 11,535,117	\$ 7,502,993
Current Liabilities Payable from Restricted Assets							
Accrued interest payable	608,250	6,943,403	-	857,241	-	8,408,894	8,785,093
Current portion of revenue bonds	2,485,000	13,610,000	-	840,000	-	16,935,000	15,015,000
Scholarship fund	-	-	-	-	15,883	15,883	15,304
Total Current Liabilities Payable from Restricted Assets	3,093,250	20,553,403	-	1,697,241	15,883	25,359,777	23,815,397
Total Current Liabilities	3,697,093	22,906,749	8,362,777	1,884,573	43,702	36,894,894	31,318,390
NON-CURRENT LIABILITIES							
Deferred revenue to be recognized in future periods	13,076,908	59,166,604	1,171,397	487,409	-	73,902,318	67,135,954
Capital contributions from members	-	-	1,400,000	-	-	1,400,000	-
Revenue bonds payable, less current portion	21,982,470	262,050,545	-	32,938,196	-	316,971,211	335,260,046
Total Non-Current Liabilities	35,059,378	321,217,149	2,571,397	33,425,605	-	392,273,529	402,396,000
Total Liabilities	38,756,471	344,123,898	10,934,174	35,310,178	43,702	429,168,423	433,714,390
NET ASSETS							
Invested in capital assets, net of related debt and obligations	577,741	(72,448,430)	358	(4,718,171)	54,122	(76,534,380)	(77,258,049)
Restricted	278	8,418,536	-	148	-	8,418,962	8,174,639
Unrestricted	(578,019)	64,029,894	(358)	4,718,023	312,183	68,481,723	69,393,034
Total Net Assets	-	-	-	-	366,305	366,305	309,624
TOTAL LIABILITIES AND NET ASSETS	\$ 38,756,471	\$ 344,123,898	\$ 10,934,174	\$ 35,310,178	\$ 410,007	\$ 429,534,728	\$ 434,024,014

See accompanying notes to financial statements.

MICHIGAN PUBLIC POWER AGENCY

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES NET ASSETS

Year Ended December 31, 2004

(With comparative totals for the year ended December 31, 2003)

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine No.1	General Office Operation	2004	(Memorandum Only) 2003
OPERATING REVENUES							
Sales to participants	\$ 11,786,250	\$ 67,912,805	\$ 41,317,303	\$ 4,910,071	\$ -	\$ 125,926,429	\$ 116,643,280
Other	-	-	-	-	831,819	831,819	750,733
Total Operating Revenues	<u>11,786,250</u>	<u>67,912,805</u>	<u>41,317,303</u>	<u>4,910,071</u>	<u>831,819</u>	<u>126,758,248</u>	<u>117,394,013</u>
OPERATING EXPENSES							
Cost of Power							
Production	5,426,657	31,677,398	-	1,818,722	-	38,922,777	33,811,523
Purchased	1,601,559	2,932,951	34,995,417	-	-	39,529,927	37,337,067
Total Cost of Power	<u>7,028,216</u>	<u>34,610,349</u>	<u>34,995,417</u>	<u>1,818,722</u>	<u>-</u>	<u>78,452,704</u>	<u>71,148,590</u>
Transmission	77,753	497,115	5,291,669	18,286	-	5,884,823	5,272,175
General and administrative	793,697	5,281,661	1,155,424	263,131	741,095	8,235,008	7,205,105
Depreciation	1,263,199	11,868,428	717	856,781	37,558	14,026,683	14,614,926
Total Operating Expenses	<u>9,162,865</u>	<u>52,257,553</u>	<u>41,443,227</u>	<u>2,956,920</u>	<u>778,653</u>	<u>106,599,218</u>	<u>98,240,796</u>
Operating Income (Loss)	<u>2,623,385</u>	<u>15,655,252</u>	<u>(125,924)</u>	<u>1,953,151</u>	<u>53,166</u>	<u>20,159,030</u>	<u>19,153,217</u>
NONOPERATING REVENUES (EXPENSES)							
Interest cost incurred	(1,216,500)	(13,886,805)	-	(1,714,481)	-	(16,817,786)	(16,179,742)
Amortization of financing-related costs	(190,026)	1,147,890	-	(61,988)	-	895,876	(478,916)
Investment income	196,521	3,057,181	24,001	110,357	3,515	3,391,575	3,586,769
Net change in fair value of investments	-	(805,650)	-	-	-	(805,650)	(1,416,945)
Total Nonoperating Revenues (Expenses)	<u>(1,210,005)</u>	<u>(10,487,384)</u>	<u>24,001</u>	<u>(1,666,112)</u>	<u>3,515</u>	<u>(13,335,985)</u>	<u>(14,488,834)</u>
Income before deferred revenue	<u>1,413,380</u>	<u>5,167,868</u>	<u>(101,923)</u>	<u>287,039</u>	<u>56,681</u>	<u>6,823,045</u>	<u>4,664,383</u>
Deferred revenue to be recognized in future periods							
Deferred revenue recognized in current period	<u>(1,413,380)</u>	<u>(5,167,868)</u>	<u>-</u>	<u>(287,039)</u>	<u>-</u>	<u>(6,868,287)</u>	<u>(5,110,076)</u>
CHANGE IN NET ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>56,681</u>	<u>56,681</u>	<u>(215,200)</u>
NET ASSETS - Beginning of Year					<u>309,624</u>	<u>309,624</u>	<u>524,824</u>
NET ASSETS - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 366,305</u>	<u>\$ 366,305</u>	<u>\$ 309,624</u>

See accompanying notes to financial statements.

Statements of Cash Flows Follows

MICHIGAN PUBLIC POWER AGENCY

COMBINED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2004

(With comparative totals for the year ended December 31, 2003)

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	General Office Operation	2004	(Memorandum Only) 2003
CASH FLOWS FROM OPERATING ACTIVITIES							
Received from customers	\$ 11,509,829	\$ 66,925,928	\$ 37,029,690	4,867,939	\$ 927,308	\$ 121,260,694	\$ 116,579,690
Paid to suppliers for goods and services	(6,954,744)	(39,043,971)	(38,098,903)	(1,996,836)	(730,145)	(86,824,599)	(81,935,509)
Paid to employees for services	(134,276)	(238,538)	(320,738)	(76,854)	(189,185)	(959,591)	(702,581)
Net Cash Flows From Operating Activities:	4,420,809	27,643,419	(1,389,951)	2,794,249	7,978	33,476,504	33,941,600
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Acquisition and construction of utility plant	(2,922,944)	(482,059)	-	(60,488)	-	(3,465,491)	(4,420,517)
Capital contributions of participating members	-	-	1,400,000	-	-	1,400,000	-
Bond issue costs	-	-	-	-	-	-	(1,407)
Principal payment on revenue bonds	(2,355,000)	(11,850,000)	-	(810,000)	-	(15,015,000)	(2,245,000)
Interest paid on revenue bonds	(1,281,263)	(14,183,055)	-	(1,729,668)	-	(17,193,986)	(11,628,518)
Other	-	24,000	-	-	(32,027)	(8,027)	(18,056)
Net Cash Flows from Capital and Related Financing Activities	(6,559,207)	(26,491,114)	1,400,000	(2,600,156)	(32,027)	(34,282,504)	(18,313,498)
CASH FLOWS FROM INVESTING ACTIVITIES							
Long-term investments purchased	-	(41,444,336)	-	-	-	(41,444,336)	(19,977,070)
Long-term investments sold	-	46,957,009	-	-	-	46,957,009	46,925,026
Investment income	193,243	3,197,314	24,001	107,141	4,094	3,525,793	4,083,204
Net Cash Flows From Investing Activities	193,243	8,709,987	24,001	107,141	4,094	9,038,466	31,031,160
Net Change in Cash and Cash Equivalents	(1,945,155)	9,862,292	34,050	301,234	(19,955)	8,232,466	46,659,262
CASH AND CASH EQUIVALENTS - Beginning of Year	17,657,169	63,477,142	2,628,642	9,425,823	273,798	93,462,574	46,806,312
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 15,712,014	\$ 73,339,434	\$ 2,662,692	\$ 9,727,057	\$ 253,843	\$ 101,695,040	\$ 93,465,574

See accompanying notes to financial statements.

MICHIGAN PUBLIC POWER AGENCY

COMBINED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2004

(With comparative totals for the year ended December 31, 2003)

	Campbell No. 3 Project	Belle River Project	Power Pool Project	Combustion Turbine #1	General Office Operation	2004	(Memorandum Only) 2003
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES							
Operating income (loss)	\$ 2,623,385	\$ 15,655,252	\$ (125,924)	\$ 1,953,151	\$ 53,166	\$ 20,159,030	\$ 19,153,217
Adjustments to reconcile operating income to net cash provided by (used in) operating activities							
Depreciation	1,263,199	11,868,428	717	856,781	37,558	14,026,683	14,614,926
Changes in assets and liabilities							
Accounts receivables	(276,421)	(986,877)	(4,287,613)	(42,132)	95,489	(5,497,554)	(814,325)
Fuel inventory	431,809	(15,936)	-	(17,556)	-	398,317	524,138
Materials and supplies inventory	-	(7,520)	-	-	-	(7,520)	27,864
Accounts payable and accrued expense	378,837	1,130,072	3,022,869	44,005	(178,235)	4,397,548	435,780
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 4,420,809</u>	<u>\$ 27,643,419</u>	<u>\$ (1,389,951)</u>	<u>\$ 2,794,249</u>	<u>\$ 7,978</u>	<u>\$ 33,476,504</u>	<u>\$ 33,941,600</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET

Current Assets	\$ 9,040,901	\$ 44,367,495	\$ 2,662,692	\$ 3,794,084	\$ 237,960	60,103,132	49,117,673
Restricted Assets	<u>6,671,113</u>	<u>28,971,939</u>	<u>-</u>	<u>5,932,973</u>	<u>15,883</u>	<u>41,591,908</u>	<u>44,347,901</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 15,712,014</u>	<u>\$ 73,339,434</u>	<u>\$ 2,662,692</u>	<u>\$ 9,727,057</u>	<u>\$ 253,843</u>	<u>\$ 101,695,040</u>	<u>\$ 93,465,574</u>

See accompanying notes to financial statements.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 1 – NATURE OF OPERATIONS

Michigan Public Power Agency (MPPA) is a public body politic and corporate of the state of Michigan created in 1978 under Act 448 of the Public Acts of Michigan, 1976, as amended. MPPA was formed to undertake the planning, financing, development, acquisition, construction, improvement, operation and maintenance of projects to supply electric power and energy for the present or future needs of its members. Each MPPA member is a municipal corporation organized under the laws of the state of Michigan and owns and operates a municipal electric system. Of MPPA's fourteen members as of December 31, 2004, ten are participants in the Campbell No. 3 Project, eleven are participants in the Belle River Project, eight are participants in the Power Pool Project and five are participants in the Combustion Turbine No.1 Project.

BASIS OF PRESENTATION

The financial activities of MPPA are recorded in separate proprietary funds described as follows:

Enterprise Funds

The Campbell No. 3, Belle River, Power Pool Project and Combustion Turbine No. 1 Funds account for the financing and operation of MPPA's interest in the respective projects, where costs are recovered through participant charges. The accounts of these Funds are maintained in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission. The Power Pool Project allows participants to pool their generating resources and electrical loads in order to coordinate the production and distribution of the most economic source of electricity at any given point in time.

General Office Operations Fund

The General Office Operation Fund accounts for financing, through participant charges, the general and administrative activities of MPPA not related to any specific electric power supply project.

MPPA's financial statements are prepared on the accrual basis of accounting following generally accepted accounting principles as established by the GASB. As permitted under these GASB established principles, the proprietary funds of MPPA do not apply Financial Accounting Standards Board (FAS) statements and interpretations issued after November 30, 1989, except for FAS 71 and related FAS statements for entities operating in industries subject to regulatory issues.

On January 1, 2002 MPPA adopted the provisions of Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of revenues, expenses, and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2004

NOTE 1 – NATURE OF OPERATIONS (cont.)

BASIS OF PRESENTATION (cont.)

- *Invested in capital assets, net of related debt and other obligations* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, obligations, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted* – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

BUDGETARY ACCOUNTING

The Board of Commissioners of MPPA adopts an operating budget each year for all funds, on the same basis of accounting used to reflect actual revenues and expenses in the financial statements. The General Manager exercises budgetary control.

USE OF ESTIMATES

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

OPERATING REVENUES

The Agency distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Agency's principal ongoing operations. The principal operating revenues of the Agency are charges to members for sales and services. Operating expenses for the Agency includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2004

NOTE 1 – NATURE OF OPERATIONS (cont.)

UTILITY PLANT

Additions to and replacements of utility plant are recorded at original cost including an allowance for borrowed funds. Depreciation is recorded using the straight-line method using service lives of three to 54 years. The agency capitalizes assets with a cost greater than \$500.

Interest is capitalized on utility property acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

INVENTORIES

Fuel inventories for the Belle River Project, Campbell No. 3 Project and the Combustion Turbine No. 1 Project are stated at average cost. The materials and supplies inventory is stated at average cost.

CASH EQUIVALENTS

For purposes of the statement of cash flows, cash equivalents are cash and investments having an initial maturity of three months or less.

INVESTMENTS

Investments are stated at fair market value, based on quoted market prices.

DEFERRED CHARGES

Bond issuance costs, premiums and discounts are deferred and amortized over the life of the bonds based on the effective interest method. Losses on advance refundings occurring after 1993 are deferred and amortized on a straight-line basis over the repayment period of the related debt.

DEFERRED REVENUES

The Agency applies the provisions of Statement of Financial Accounting Standards (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (FAS No. 71). This statement recognizes the effects of operating in a regulatory environment creating future economic benefits and obligations affecting its members. Accordingly, the Agency records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to members through the ratemaking process.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 1 – NATURE OF OPERATIONS (cont.)

DEFERRED REVENUES (cont.)

In order for the Agency to continue to apply the provisions of FAS No. 71, it must continue to meet the following three criteria: (1) the Agency's rates for services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers; (2) the Agency's rates must be designed to recover the Agency's costs of providing the services; and (3) in view of the demand for the services and the level of competition, it is reasonable to assume that rates set at levels that will recover the Agency's costs can be charged to and collected from customers.

In accordance with the provisions of FAS 71, revenues collected from members in excess of operating expenses are deferred to future periods when they will be recognized as revenues.

RATES

Members are billed monthly based on estimated usage, with amounts adjusted to actual costs in future month's bills. Accrued revenues are not considered material to these financial statements.

TAXES

MPPA is exempt from State and Federal income taxes.

COMPENSATED ABSENCES

Under terms of employment, employees are granted one and one quarter day of sick leave per month. Employees can accumulate up to sixty-five days of sick leave, however there is no payment for unused sick leave upon termination of employment.

NOTE 2 – JOINT PROJECT OWNERSHIP AGREEMENTS

CAMPBELL UNIT No. 3

MPPA and Consumers Energy Company (Consumers) entered into the following agreements dated October 1, 1979, as amended, relating to Consumers' Campbell Unit No. 3 steam-electric generating unit, which went into commercial operation in September 1980:

The Campbell Ownership Agreement provides for MPPA to own a 4.8% undivided interest in Campbell Unit No. 3, for Consumers to operate Campbell Unit No. 3, for the sale of surplus electric capacity to Consumers, for operating costs of Campbell Unit No. 3 to be shared on a pro rata basis, and for MPPA to purchase an undivided ownership interest in the fuel supply for Campbell Unit No. 3.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2004

NOTE 2 – JOINT AGREEMENTS (cont.)

CAMPBELL UNIT No. 3 (cont.)

The Campbell Transmission Agreement provides for MPPA to purchase a 58.06% undivided ownership interest in Consumers' Vergennes to Kenowa-Goss 345 KV transmission line, the method of determining certain charges for utilization of the Consumers transmission system, for the sale to Consumers of planned available transmission capacity in excess of MPPAs need, and for sharing transmission line operating expenses.

The Campbell Back-Up Agreement provides for Consumers to make backup electric capacity and energy available to MPPA from its electric system reserves in the event of total or partial unavailability of capacity and energy from Campbell Unit No. 3, and for determination of the associated backup electric capacity and energy charges to MPPA.

MPPA entered into a Power Sales Contract and a Project Support Contract with each of the ten members who elected to participate in the Campbell No. 3 Project. These contracts provide for the participant to purchase from MPPA the participant's entitlement share, as defined, of the generation and transmission of the Project. Each participant also shares proportionately in the proceeds from MPPAs sale of excess generating and transmission capacity to Consumers. Each participant is obligated to pay its share of the operating and debt service costs of the Project.

BELLE RIVER UNIT No. 1

On December 1, 1982, MPPA and the Detroit Edison Company (Edison) entered into the following agreements, as amended, relating to Edison's Belle River Unit No. 1 steam-electric generating unit, part of a two-unit generating station, which went into commercial operation in August 1984:

The Belle River Participation Agreement provides for MPPA to purchase a 37.22% undivided ownership interest in Belle River Unit No. 1 and an undivided ownership interest in certain common and joint facilities associated with Belle River Unit No. 1, for MPPA to purchase an undivided ownership interest in the fuel supply stockpile, for Edison to operate Belle River Units No. 1 and 2, for the sharing of operating costs of both units, for the sale of surplus electric capacity and energy to Edison, and for backup electric capacity and energy from Edison's electric system reserves to be available in the event of total or partial unavailability of power and energy from Belle River. Pursuant to the reliability exchange provisions in the Agreement, MPPA is entitled to 18.61% of the electric capacity and energy from each of the Belle River Units No. 1 and 2.

The Belle River Transmission Ownership and Operating Agreement with Edison provides for MPPA to purchase a 50.41% undivided ownership interest in Edison's Greenwood-St. Clair-Jewell-Stephens Transmission Line and the Monroe-Wayne-Coventry-Majestic Transmission Line, for Edison to operate the transmission lines, for the sharing of operating costs and for the sale of planned excess transmission capacity to Edison.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2004

NOTE 2 – JOINT AGREEMENTS (cont.)

BELLE RIVER UNIT No. 1 (cont.)

MPPA entered into the Belle River Transmission Ownership and Operating Agreement with Consumers, dated December 1, 1982, as amended, which provides MPPA with a 90% undivided ownership interest in certain Consumers-designated transmission lines, for Consumers to operate the transmission lines, for the sharing of operating costs and for the sale to Consumers of planned excess transmission capacity, if any.

MPPA entered into a Power Sales Contract and a Project Support Contract with each of the eleven members who elected to participate in the Belle River Project. These contracts provide for the participants to purchase from MPPA their entitlement share, as defined, of generation and transmission of the Project. Each participant also shares proportionately in MPPA's sale of excess generating and transmission capacity. Each participant is obligated to pay its share of power, transmission, backup, debt service and other project-related costs.

COMBUSTION TURBINE PROJECT No. 1

In 2002 MPPA completed construction of a 50 mW (nominal nameplate rating) simple-cycle combustion turbine generating unit fueled with natural gas (the CT Project No. 1). The unit is located in Kalkaska County, Michigan. The project included construction of natural gas pipeline and metering equipment to connect to Coral Energy, LLC's (Coral) natural gas facilities, a 69 kV electrical line tap and associated equipment to deliver the output of the CT Project No. 1 to the transmission system owned by Wolverine Power Supply Cooperative (Wolverine), and an undivided ownership interest in one or more as yet undesignated extra-high voltage electrical transmission lines on the METC transmission system. MPPA has purchased a parcel of land from Coral and entered into a long-term fuel purchase contract with Coral to supply the CT Project No.1.

MPPA entered into a Power Sales Contract with each of the five members who elected to participate in the CT Project No. 1. These contracts provide for the participants to purchase from MPPA their entitlement share, as defined, of generation and transmission of the Project. Each participant is obligated to pay its share of the operating and debt service costs of the Project.

NOTE 3 – CASH AND INVESTMENTS

MPPA adopted an investment policy, in accordance with the bond resolutions, that allows it to invest in U.S. Treasury obligations, certain federal agency securities, new Michigan Housing Authority bonds, direct and general obligations of any state, certificates of deposit with qualified United States institutions, repurchase agreements with qualified institutions, municipal obligations, time deposits, bankers' acceptances, commercial paper and pooled investment funds.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2004

NOTE 3 – CASH AND INVESTMENTS (cont.)

MPPAs deposits and investments are categorized to give an indication of the level of risk assumed by the Agency at year end. Category 1 includes items that are insured or registered or which are collateralized by or evidenced by securities held by MPPA's or its agent in MPPA's name. Category 2 includes deposits collateralized with securities held by the pledging institution's trust department or agent in MPPA's name, or uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in MPPA's name. Category 3 includes uncollateralized deposits, and uninsured and uncollateralized investments.

CASH AND INVESTMENTS – DECEMBER 31, 2004

	Category			Carrying Value
	1	2	3	
Restricted Assets				
Certificates of deposit	\$ -	\$ 14,500	\$ -	\$ 14,500
Money market funds	41,576,025	1,383	-	41,577,408
	<u>\$ 41,576,025</u>	<u>\$ 15,883</u>	<u>\$ -</u>	<u>\$ 41,591,908</u>
Current Assets				
Cash and cash equivalents				
Certificates of deposit	\$ -	\$ 7,000,000	\$ -	\$ 7,000,000
Money market funds	36,033,648	16,892,014	-	52,925,662
Demand and savings deposits	-	177,470	-	177,470
	36,033,648	24,069,484	-	60,103,132
U.S. Government Agency notes	51,336,602	-	-	51,336,602
	<u>\$ 87,370,250</u>	<u>\$ 24,069,484</u>	<u>\$ -</u>	<u>\$ 111,439,734</u>
Total Cash and Investments				<u>\$ 153,031,642</u>

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

Deposits in banks are insured by the FDIC in the amount of \$100,000 for all interest bearing accounts and \$100,000 for all noninterest bearing accounts.

NOTE 4 – RESTRICTED ASSETS

The Agency's bond resolutions require the segregation of bond proceeds, establishment of various funds, and prescribe the application of the Agency's revenues. Also, it defines what type of securities that the Agency may invest in. The funds established by the resolution are detailed in the balance sheet. The Agency is in compliance with all bond resolution funding requirements.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2004

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2004 follows:

	Balance 12/31/03	Additions/ Reclassi- fications	Deletions/ Reclassi- fications	Balance 12/31/04
Capital assets not being depreciated:				
Land	\$ 598,889	\$ -	\$ -	\$ 598,889
Capital assets being depreciated:				
Utility Plant in Service	516,928,865	3,100,517	-	520,029,382
Less: Accumulated Depreciation	<u>(260,587,240)</u>	<u>(14,026,682)</u>	<u>7,579</u>	<u>(274,606,344)</u>
Net Utility Plant	<u>\$ 256,940,514</u>			<u>\$ 246,021,927</u>

NOTE 6 – LONG-TERM DEBT

CAMPBELL No. 3 PROJECT REVENUE BONDS

The following bonds have been issued by the Agency:

Date	Purpose	Final Maturity	Interest Rates	Original Amount
July 15, 1997	Refund 1989 bonds	1/1/09	5.0 – 5.5%	\$ 24,925,000
May 1, 2002	Finance cost of improvements	1/1/13	4.0 – 4.25%	\$ 11,000,000

The following obligations are outstanding at December 31:

	2004
1997A bonds	\$ 13,885,000
Unamortized loss 1997A advanced refunding transaction	(527,516)
Unamortized premium on 1997A bonds	109,986
2002A bonds	<u>11,000,000</u>
	24,467,470
Less: Current portion	<u>2,485,000</u>
Totals	<u>\$ 21,982,470</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2004

NOTE 6 – LONG-TERM DEBT (cont.)

CAMPBELL No. 3 PROJECT REVENUE BONDS (cont.)

MPPA's annual debt service requirements are collected from participating member municipalities and from transfers from the project account during the period preceding the required interest and principal payments. Debt service requirements to be collected during each of the five years following December 31, 2004, and in five-year increments thereafter to maturity, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 2,620,000	\$ 1,079,825	\$ 3,699,825
2006	2,770,000	935,725	3,705,725
2007	2,925,000	783,375	3,708,375
2008	3,085,000	622,500	3,707,500
2009	2,570,000	452,825	3,022,825
2010 – 2012	8,430,000	714,285	9,144,285
Totals	<u>\$ 22,400,000</u>	<u>\$ 4,588,535</u>	<u>\$ 26,988,535</u>

Substantially all revenues of the Campbell No. 3 Project are pledged until the debt is defeased.

Long-term liabilities as of December 31, 2004:

<u>Long-Term Liabilities</u>	<u>12/31/03 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/04 Balance</u>
Revenue bonds	\$ 27,240,000	\$ -	\$(2,355,000)	\$ 24,885,000
Unamortized loss on advanced refunding transaction	(703,388)	-	175,872	(527,516)
Unamortized premium on bonds	162,151	-	(52,165)	109,986
Current maturities	(2,355,000)	-	(130,000)	(2,485,000)
Total Long-Term Liabilities	<u>\$ 24,343,763</u>	<u>\$ -</u>	<u>\$(2,361,293)</u>	<u>\$ 21,982,470</u>

BELLE RIVER PROJECT REVENUE BONDS

The following bonds have been issued by the Agency:

<u>Date</u>	<u>Purpose</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>
December 2, 2002	Refund 1993A&B bonds	1/1/18	2.125 – 5.25%	280,180,000

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2004

NOTE 6 – LONG-TERM DEBT (cont.)

BELLE RIVER PROJECT REVENUE BONDS (cont.)

The following obligations are outstanding at December 31:

	<u>2004</u>
2002A bonds	\$ 268,330,000
Unamortized loss 2002A advanced refunding transaction	(12,788,377)
Unamortized premium on 2002A bonds	<u>20,118,922</u>
	275,660,545
Less: Current portion	<u>13,610,000</u>
Totals	<u><u>\$ 262,050,545</u></u>

MPPA's annual debt service requirements are collected from participating member municipalities and from transfers from the project account during the period preceding the required interest and principal payments. Debt service requirements to be collected during each of the five years following December 31, 2004, and in five-year increments thereafter to maturity, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 14,275,000	\$ 13,222,118	\$ 27,497,118
2006	14,975,000	12,516,980	27,491,980
2007	15,685,000	11,810,780	27,495,780
2008	16,505,000	10,987,318	27,492,318
2009	17,350,000	10,142,805	27,492,805
2010 – 2014	101,405,000	36,072,480	137,477,480
2015 – 2017	<u>74,525,000</u>	<u>7,958,736</u>	<u>82,483,736</u>
Totals	<u><u>\$ 254,720,000</u></u>	<u><u>\$ 102,711,217</u></u>	<u><u>\$ 357,431,217</u></u>

Substantially all revenues of the Belle River Project are pledged until the debt is defeased.

Long-term liabilities as of December 31, 2004:

<u>Long-Term Liabilities</u>	<u>12/31/03 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/04 Balance</u>
Revenue bonds	\$ 280,180,000	\$ -	\$ (11,850,000)	\$ 268,330,000
Unamortized loss on advanced refunding transaction	(14,517,396)		1,729,019	(12,788,377)
Unamortized premium on bonds	23,329,687		(3,210,765)	20,118,922
Current maturities	<u>(11,850,000)</u>	<u>-</u>	<u>(1,760,000)</u>	<u>(13,610,000)</u>
Total Long-Term Liabilities	<u><u>\$ 277,142,291</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (15,091,746)</u></u>	<u><u>\$ 262,050,545</u></u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2004

NOTE 6 – LONG-TERM DEBT (cont.)

COMBUSTION TURBINE No. 1 PROJECT REVENUE BONDS

The following obligations are outstanding at December 31:

	<u>2004</u>
2002A bonds	\$ 33,835,000
Unamortized discount on 2002A bonds	<u>(56,804)</u>
	33,778,196
Less: Current portion	<u>840,000</u>
Totals	<u>\$ 32,938,196</u>

MPPA's annual debt service requirements are collected from participating member municipalities and from transfers from the project account during the period preceding the required interest and principal payments. Debt service requirements to be collected during each of the five years following December 31, 2004, and in five-year increments thereafter to maturity, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 870,000	\$ 1,680,881	\$ 2,550,881
2006	905,000	1,646,081	2,551,081
2007	945,000	1,608,750	2,553,750
2008	985,000	1,566,225	2,551,225
2009	1,030,000	1,521,900	2,551,900
2010 – 2014	5,950,000	6,816,375	12,766,375
2015 – 2019	7,670,000	5,092,238	12,762,238
2020 – 2024	9,910,000	2,855,475	12,765,475
2025 – 2027	<u>4,730,000</u>	<u>375,637</u>	<u>5,105,637</u>
Totals	<u>\$ 32,995,000</u>	<u>\$ 23,163,562</u>	<u>\$ 56,158,562</u>

Substantially all revenues of the Combustion Turbine No. 1 Project are pledged until the debt is defeased.

Long-term liabilities as of December 31, 2004:

<u>Long-Term Liabilities</u>	<u>12/31/03 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/04 Balance</u>
Revenues bonds	\$ 34,645,000	\$ -	\$ (810,000)	\$ 33,835,000
Unamortized discount on term bonds	(61,008)	-	4,204	(56,804)
Current maturities	<u>(810,000)</u>	-	<u>(30,000)</u>	<u>(840,000)</u>
Total Long-Term Liabilities	<u>\$ 33,773,992</u>	<u>\$ -</u>	<u>\$ (835,796)</u>	<u>\$ 32,938,196</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2004

NOTE 7 – EMPLOYEE RETIREMENT PLAN

MPPA employees are covered by a defined contribution retirement pension plan. MPPA makes an annual contribution based on a percentage of employee earnings on behalf of each employee. Total contributions to the plan by MPPA for the years ended December 31, 2004, 2003 and 2002 were approximately \$172,000, \$139,000, and \$122,100, respectively.

NOTE 8 – CONTRACTS AND COMMITMENTS

CONTRACT WITH CONSUMERS ENERGY

MPPA contracted with Consumers to purchase fuel coal in order to maintain a stockpile level of 21,527 wet tons (21,512 in 2003) for the Campbell Unit No. 3 plant. The coal is purchased at the prevailing market price at the time of delivery. MPPA also purchased an additional stockpile of coal as substitute for its proportionate interest in the materials and supply inventory at Campbell Unit No. 3. This stockpile is maintained at a level to approximate MPPA's ownership interest in the materials and supply inventory at the Campbell plant.

CONTRACT WITH DETROIT EDISON

MPPA's share of the stockpile of coal for the Belle River plant equals 260,500 tons.

CONTRACT WITH CORAL ENERGY

MPPA contracted with Coral Energy for natural gas for the CT Project No.1. The contract expires in 2012.

NOTE 9 – RISK MANAGEMENT

MPPA is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2004

NOTE 10 – CONCENTRATION OF RISK

Credit risk represents the risk of loss that would occur if customers do not meet their financial obligations to MPPA. Concentration of risk occurs when significant customers possess similar characteristics that would cause their ability to meet contractual obligations to be affected by the same events.

MPPA has two members who are considered significant customers. They accounted for \$31.9 million (25%) of MPPA revenues in 2004.

NOTE 12 – BOND COVENANT DISCLOSURES

CAMPBELL NO. 3 PROJECT

COMPLIANCE WITH FUNDING REQUIREMENTS

MPPA is in compliance with bond funding requirements.

DEBT SERVICE COVERAGE

	2004
Operating revenues	\$ 11,786,250
Other revenues	196,521
	<u>11,982,771</u>
Operating expenses	9,162,865
Less depreciation	(1,263,199)
	<u>7,899,666</u>
Net revenues	<u>4,083,105</u>
Debt service	3,701,500
	x 1.10
Required revenues	<u>4,071,650</u>
Revenues in Excess of Coverage Requirements	<u>\$ 11,455</u>

MICHIGAN PUBLIC POWER AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2004

NOTE 12 – BOND COVENANT DISCLOSURES (cont.)

BELLE RIVER PROJECT

COMPLIANCE WITH FUNDING REQUIREMENTS

MPPA is in compliance with bond funding requirements.

DEBT SERVICE COVERAGE

	2004
Operating revenues	\$ 67,912,805
Other revenues	3,057,181
	<u>70,969,986</u>
Operating expenses	52,257,553
Less depreciation	(11,868,428)
	<u>40,389,125</u>
Net Revenues	<u>30,580,861</u>
Debt service	<u>27,496,805</u>
Revenues in Excess of Coverage Requirements	<u>\$ 3,084,056</u>

COMBUSTION TURBINE No. 1 PROJECT

COMPLIANCE WITH FUNDING REQUIREMENTS

MPPA is in compliance with bond funding requirements.

DEBT SERVICE COVERAGE

	2004
Operating revenues	\$ 4,910,071
Other revenues	110,357
	<u>5,020,428</u>
Operating expenses	2,956,920
Less depreciation	(856,781)
	<u>2,100,139</u>
Net Revenues	<u>2,920,289</u>
Debt service	2,554,481
	x 1.10
Required revenues	<u>2,809,929</u>
Revenues in Excess of Coverage Requirements	<u>\$ 110,360</u>

S U P P L E M E N T A L I N F O R M A T I O N

MICHIGAN PUBLIC POWER AGENCY

SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE CAMPBELL NO. 3 PROJECT REVENUE BOND RESOLUTION
Year Ended December 31, 2004

	Debt Service Account	Revenue Account	Operation and Maintenance Account	Operation and Maintenance Reserve Account	Fuel Reserve Account	Construction Account	Project Account	Totals
Cash and investments at January 1, 2004	\$ 3,030,706	\$ -	\$ 1,502,118	\$ 250,000	\$ 800,000	\$ 6,093,645	\$ 5,980,700	\$ 17,657,169
Receipts		11,495,627	85,492			59,983		11,641,102
Investment receipts	19,891		113,367					133,258
Net increase (decrease) in fair value of investments								-
Proceeds from bonds								-
Payment of interest on bonds	(1,281,262)							(1,281,262)
Payment of bond principal	(2,355,000)							(2,355,000)
Disbursements		(3,901,917)	(6,181,336)					(10,083,253)
Transfers -- net	3,679,193	(7,593,710)	6,490,560	-	-	(2,576,043)	-	-
CASH AND INVESTMENTS AT DECEMBER 31, 2004	\$ 3,093,528	\$ -	\$ 2,010,201	\$ 250,000	\$ 800,000	\$ 3,577,585	\$ 5,980,700	\$ 15,712,014

MICHIGAN PUBLIC POWER AGENCY

SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE BELLE RIVER PROJECT REVENUE BOND RESOLUTION Year Ended December 31, 2004

	Debt Service Account	Debt Service Reserve Account	Reserve and Contingency Account	Revenue Account	Operation and Maintenance Account	Project Account	Totals
Cash and investments at January 1, 2004	\$ 19,211,135	\$ -	\$ 8,318,166	\$ -	\$ 8,316,270	\$ 85,286,496	\$ 121,132,067
Receipts			98,532	66,047,880	1,248,813		67,395,225
Investment receipts	130,221				76,911	2,891,650	3,098,782
Net Increase (decrease) in fair value of investments						(805,650)	(805,650)
Bond refunding - net							-
Payment of interest on bonds	(14,183,055)						(14,183,055)
Payment of bond principal	(11,850,000)						(11,850,000)
Disbursements					(40,111,333)		(40,111,333)
Transfers -- net	27,246,940	-	-	(66,047,880)	38,803,185	(2,245)	-
CASH AND INVESTMENTS AT DECEMBER 31, 2004	\$ 20,555,241	\$ -	\$ 8,416,698	\$ -	\$ 8,333,846	\$ 87,370,251	\$ 124,676,036

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - CAMPBELL NO. 3 PROJECT

	2004 Budget	2004 Actual	2003 Actual	2004 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 5,304,000	\$ 5,462,470	\$ 4,807,951	\$ 158,470
Backup capacity	566,000	566,913	808,865	913
Transmission	350,000	350,056	313,942	56
Energy (fuel)	4,372,000	4,372,165	4,446,427	165
Backup energy	1,034,000	1,034,646	630,446	646
Transmission utilization	-	-	(13,682)	-
Total Operating Revenue	11,626,000	11,786,250	10,993,949	160,250
OPERATING EXPENSES				
Production				
Fuel	4,372,000	4,372,165	4,446,427	165
Operation	624,000	623,849	406,936	(151)
Maintenance	360,440	430,643	330,288	70,203
Total Production	5,356,440	5,426,657	5,183,651	70,217
Purchased Power				
Backup capacity	566,000	566,913	808,865	913
Backup energy	1,034,000	1,034,646	630,446	646
Total Purchased Power	1,600,000	1,601,559	1,439,311	1,559
Transmission				
Operation	77,000	77,220	41,947	220
Maintenance	1,000	533	590	(467)
Utilization	-	-	(13,682)	-
Total Transmission	78,000	77,753	28,855	(247)
General and Administrative				
Salaries and wages	179,124	134,276	85,583	(44,848)
Employee benefits	285,000	284,135	179,433	(865)
Outside services	83,656	93,654	36,339	9,998
Taxes	54,000	49,652	45,950	(4,348)
Insurance and liability	198,000	197,552	64,890	(448)
Meetings and travel	9,102	7,811	9,055	(1,291)
Office supplies	21,420	10,813	11,885	(10,607)
Rents	13,788	10,059	12,036	(3,729)
Miscellaneous	25,694	5,745	8,661	(19,949)
Total General and Administrative	869,784	793,697	453,832	(76,087)

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - CAMPBELL NO. 3 PROJECT (cont.)

	2004 Budget	2004 Actual	2003 Actual	2004 Actual Over (Under) Budget
OPERATING EXPENSES (cont.)				
Depreciation	\$ 1,289,256	\$ 1,263,199	\$ 1,218,272	\$ (26,057)
Total Operating Expense	<u>9,193,480</u>	<u>9,162,865</u>	<u>8,323,921</u>	<u>(30,615)</u>
Operating Income	<u>2,432,520</u>	<u>2,623,385</u>	<u>2,670,028</u>	<u>190,865</u>
OTHER EXPENSES				
Interest cost incurred	1,216,500	1,216,500	1,460,889	-
Amortization of financing-related costs	<u>190,020</u>	<u>190,026</u>	<u>72,026</u>	<u>6</u>
Total Other Expenses	<u>1,406,520</u>	<u>1,406,526</u>	<u>1,532,915</u>	<u>6</u>
OTHER REVENUES				
Investment income	174,000	196,521	183,019	22,521
Net change in fair value of investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Income	<u>174,000</u>	<u>196,521</u>	<u>183,019</u>	<u>22,521</u>
Income before deferred revenue	<u>\$ 1,200,000</u>	<u>1,413,380</u>	<u>1,320,132</u>	<u>\$ 213,380</u>
Deferred revenue to be recognized in future periods		<u>(1,413,380)</u>	<u>(1,320,132)</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - BELLE RIVER PROJECT

	2004 Budget	2004 Actual	2003 Actual	2004 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 36,441,175	\$ 37,726,185	\$ 36,928,776	\$ 1,285,010
Backup capacity	438,960	676,213	333,372	237,253
Transmission	3,353,742	3,154,780	2,781,206	(198,962)
Energy (fuel)	24,306,402	24,205,898	20,102,862	(100,504)
Backup energy	3,977,413	2,256,738	3,257,922	(1,720,675)
Transmission utilization	-	(107,009)	(222,736)	(107,009)
Total Sales to Participants	<u>68,517,692</u>	<u>67,912,805</u>	<u>63,181,402</u>	<u>(604,887)</u>
OPERATING EXPENSES				
Production				
Fuel	24,306,402	24,205,898	20,102,862	(100,504)
Operation	2,688,000	3,435,879	2,509,624	747,879
Maintenance	3,600,000	4,035,621	4,546,578	435,621
Total Production	<u>30,594,402</u>	<u>31,677,398</u>	<u>27,159,064</u>	<u>1,082,996</u>
Purchased Power				
Backup capacity	438,960	676,213	333,372	237,253
Backup energy	3,977,413	2,256,738	3,257,922	(1,720,675)
Total Purchased Power	<u>4,416,373</u>	<u>2,932,951</u>	<u>3,591,294</u>	<u>(1,483,422)</u>
Transmission				
Operation	312,000	598,262	280,485	286,262
Maintenance	276,000	5,862	43,303	(270,138)
Utilization	-	(107,009)	(222,736)	(107,009)
Total Transmission	<u>588,000</u>	<u>497,115</u>	<u>101,052</u>	<u>(90,885)</u>
General and Administrative				
Salaries and wages	1,283,580	1,028,360	877,100	(255,220)
Employee benefits	1,317,636	2,003,266	1,791,422	685,630
Outside services	459,536	478,913	259,854	19,377
Taxes	780,000	522,581	652,255	(257,419)
Insurance and liability	199,952	200,114	201,307	162
Meetings and travel	17,469	23,146	12,966	5,677
Office supplies	1,116,060	659,227	874,538	(456,833)
Rents	35,388	(5,110)	(9,503)	(40,498)
Miscellaneous	185,616	371,164	146,373	185,548
Total General and Administrative	<u>5,395,237</u>	<u>5,281,661</u>	<u>4,806,312</u>	<u>(113,576)</u>

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - BELLE RIVER PROJECT (cont.)

	<u>2004 Budget</u>	<u>2004 Actual</u>	<u>2003 Actual</u>	<u>2004 Actual Over (Under) Budget</u>
OPERATING EXPENSES (cont.)				
Depreciation	\$ 12,408,000	\$ 11,868,428	\$ 12,520,485	\$ (539,572)
Total Operating Expense	<u>53,402,012</u>	<u>52,257,553</u>	<u>48,178,207</u>	<u>(1,144,459)</u>
Operating Income	<u>15,115,680</u>	<u>15,655,252</u>	<u>15,003,195</u>	<u>539,572</u>
OTHER EXPENSES				
Interest cost incurred	13,886,808	13,886,805	12,969,680	(3)
Amortization of financing-related costs	<u>(1,246,632)</u>	<u>(1,147,890)</u>	<u>348,101</u>	<u>98,742</u>
Total Other Expenses	<u>12,640,176</u>	<u>12,738,915</u>	<u>13,317,781</u>	<u>98,739</u>
OTHER REVENUES				
Investment income	3,600,000	3,057,181	3,261,642	(542,819)
Net change in fair value of investments	<u>-</u>	<u>(805,650)</u>	<u>(1,416,945)</u>	<u>(805,650)</u>
Total Other Income	<u>3,600,000</u>	<u>2,251,531</u>	<u>1,844,697</u>	<u>(1,348,469)</u>
Income (loss) before deferred revenue	<u>\$ 6,075,504</u>	<u>5,167,868</u>	<u>3,530,111</u>	<u>\$ (907,636)</u>
Deferred revenue to be recognized in future periods		<u>(5,167,868)</u>	<u>(3,530,111)</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - POWER POOL PROJECT

	2004 Budget	2004 Actual	2003 Actual	2004 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 29,402,241	\$ 29,412,642	\$ 27,486,255	\$ 10,401
Capacity	6,610,987	6,611,923	5,886,415	936
Transmission	5,291,772	5,292,738	4,559,553	966
Total Operating Revenue	<u>41,305,000</u>	<u>41,317,303</u>	<u>37,932,223</u>	<u>12,303</u>
OPERATING EXPENSES				
Purchased Power				
Capacity	6,709,987	6,709,034	5,750,838	(953)
Energy	28,440,886	28,286,383	26,555,624	(154,503)
Total Purchased Power	<u>35,150,873</u>	<u>34,995,417</u>	<u>32,306,462</u>	<u>(155,456)</u>
Transmission				
Wheeling	5,291,772	5,291,669	5,130,145	(103)
General and Administrative				
Salaries and wages	277,781	320,738	197,485	42,957
Employee benefits	123,888	147,511	79,402	23,623
Outside services	533,204	610,072	412,581	76,868
Insurance and liability	8,408	8,979	6,614	571
Meetings and travel	18,395	19,923	11,421	1,528
Office supplies	12,696	8,205	9,445	(4,491)
Rents	21,336	21,552	16,966	216
Miscellaneous	5,867	18,444	29,923	12,577
Total General and Administrative	<u>1,001,575</u>	<u>1,155,424</u>	<u>763,837</u>	<u>153,849</u>
Depreciation	780	717	767	(63)
Total Operating Expense	<u>41,445,000</u>	<u>41,443,227</u>	<u>38,201,211</u>	<u>(1,773)</u>
 Operating Income (Loss)	 <u>(140,000)</u>	 <u>(125,924)</u>	 <u>(268,988)</u>	 <u>14,076</u>
OTHER EXPENSES				
Interest costs incurred	-	-	-	-
OTHER REVENUES				
Investment income	36,000	24,001	38,495	(11,999)
Income before deferred revenue	<u>\$ (104,000)</u>	<u>(101,923)</u>	<u>(230,493)</u>	<u>\$ 2,077</u>
 Deferred revenue to be recognized in future periods				
Deferred revenue recognized in current period		<u>101,923</u>	<u>230,493</u>	
 CHANGE IN NET ASSETS		 <u>\$ -</u>	 <u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - COMBUSTION TURBINE NO. 1 PROJECT

	2004 Budget	2004 Actual	2003 Actual	2004 Actual Over (Under) Budget
OPERATING REVENUES				
Sales to Participants				
Power	\$ 3,945,304	\$ 3,934,773	\$ 3,897,540	\$ (10,531)
Backup capacity	-	-	-	-
Transmission	350,500	16,865	12,123	(333,635)
Energy (fuel)	1,956,000	958,433	626,043	(997,567)
Backup energy	-	-	-	-
Transmission utilization	-	-	-	-
Total Operating Revenue	<u>6,251,804</u>	<u>4,910,071</u>	<u>4,535,706</u>	<u>(1,341,733)</u>
OPERATING EXPENSES				
Production				
Fuel	1,956,000	958,433	626,043	(997,567)
Operation	762,767	744,519	718,618	(18,248)
Maintenance	185,324	115,770	124,147	(69,554)
Total Production	<u>2,904,091</u>	<u>1,818,722</u>	<u>1,468,808</u>	<u>(1,085,369)</u>
Purchased Power				
Backup capacity	-	-	-	-
Backup energy	-	-	-	-
Total Purchased Power	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Transmission				
Operation	350,500	16,865	12,123	(333,635)
Maintenance	-	1,421	-	1,421
Utilization	-	-	-	-
Total Transmission	<u>350,500</u>	<u>18,286</u>	<u>12,123</u>	<u>(332,214)</u>
General and Administrative				
Salaries and wages	52,752	76,854	77,462	24,102
Employee benefits	23,532	65,540	57,874	42,008
Outside services	94,054	89,411	71,058	(4,643)
Taxes	-	7,189	8,217	7,189
Insurance and liability	1,596	1,694	2,267	98
Meetings and travel	6,794	12,389	12,737	5,595
Office supplies	2,412	3,906	5,897	1,494
Rents	4,056	5,880	8,218	1,824
Miscellaneous	2,085	268	705	(1,817)
Total General and Administrative	<u>187,281</u>	<u>263,131</u>	<u>244,435</u>	<u>75,850</u>

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - COMBUSTION TURBINE NO. 1 PROJECT (cont.)

	2004 Budget	2004 Actual	2003 Actual	2004 Actual Over (Under) Budget
OPERATING EXPENSES (cont.)				
Depreciation	\$ 840,000	\$ 856,781	\$ 839,021	\$ 16,781
Total Operating Expense	<u>4,281,872</u>	<u>2,956,920</u>	<u>2,564,387</u>	<u>(1,324,952)</u>
Operating Income	<u>1,969,932</u>	<u>1,953,151</u>	<u>1,971,319</u>	<u>(16,781)</u>
OTHER EXPENSES				
Interest cost incurred	1,714,476	1,714,481	1,749,173	5
Amortization of financing-related costs	<u>60,480</u>	<u>61,988</u>	<u>58,789</u>	<u>1,508</u>
Total Other Expenses	<u>1,774,956</u>	<u>1,776,469</u>	<u>1,807,962</u>	<u>1,513</u>
OTHER REVENUES				
Investment income	60,000	110,357	96,476	50,357
Net change in fair value of investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Income	<u>60,000</u>	<u>110,357</u>	<u>96,476</u>	<u>50,357</u>
Income before deferred revenue	<u>\$ 254,976</u>	<u>287,039</u>	<u>259,833</u>	<u>\$ 32,063</u>
Deferred revenue to be recognized in future periods		<u>(287,039)</u>	<u>(259,833)</u>	
Deferred revenue recognized in current period		<u>-</u>	<u>-</u>	
CHANGE IN NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	

MICHIGAN PUBLIC POWER AGENCY

DETAILS OF REVENUES AND EXPENSES - GENERAL OFFICE OPERATION

	2004 Budget	2004 Actual	2003 Actual	2004 Actual Over (Under) Budget
OPERATING REVENUES				
Participant membership fees	\$ 393,750	\$ 490,277	\$ 432,443	\$ 96,527
Charges for Services				
Projects	131,261	131,256	112,501	(5)
MMEA	217,809	210,286	205,789	(7,523)
Total Operating Revenue	<u>742,820</u>	<u>831,819</u>	<u>750,733</u>	<u>88,999</u>
OPERATING EXPENSES				
General and Administrative				
Salaries and wages	219,996	296,817	268,498	76,821
Employee benefits	120,996	163,250	134,249	42,254
Outside services	308,296	141,890	374,229	(166,406)
Insurance and liability	4,190	4,401	4,991	211
Meetings and travel	26,668	30,136	26,306	3,468
Office supplies	12,408	9,998	15,693	(2,410)
Rents	20,832	21,047	24,893	215
Miscellaneous	105,626	97,556	111,830	(8,070)
Total General and Administrative	<u>819,012</u>	<u>765,095</u>	<u>960,689</u>	<u>(53,917)</u>
Depreciation	<u>31,284</u>	<u>37,558</u>	<u>36,381</u>	<u>6,274</u>
Total Operating Expense	<u>850,296</u>	<u>802,653</u>	<u>997,070</u>	<u>(47,643)</u>
Operating Income (Loss)	<u>(107,476)</u>	<u>29,166</u>	<u>(246,337)</u>	<u>136,642</u>
OTHER REVENUES				
Interest income	-	3,515	7,137	3,515
Prepaid lease income	<u>24,000</u>	<u>24,000</u>	<u>24,000</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>\$ (83,476)</u>	<u>\$ 56,681</u>	<u>\$ (215,200)</u>	<u>\$ 140,157</u>